DETOUR MEDIA GROUP INC
Form 10QSB/A
October 17, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB\A1

Quarterly Report Under
the Securities Exchange Act of 1934

For Quarter Ended: March 31, 1998

Commission File Number: 0-25388

DETOUR MEDIA GROUP, INC.
(Exact name of small business issuer as specified in its charter)

DETOUR MAGAZINE, INC.
(Former Name)

Colorado
(State or other jurisdiction of incorporation or organization)

84-1156459
(IRS Employer Identification No.)

7060 Hollywood Blvd., Suite 1150
Los Angeles, California
(Address of principal executive offices)

90038
(Zip Code)

(323) 469-9444
(Issuer's Telephone Number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes __X__ No _____.

The number of shares of the registrant's only class of common stock issued and outstanding, as of October 10, 2001, was 36,572,364 shares.

PART I

ITEM 1. FINANCIAL STATEMENTS.

Our unaudited financial statements for the three month period ended March 31, 1998, are attached hereto.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our unaudited financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by, or on our behalf. We disclaim any obligation to update forward looking statements.

OVERVIEW

Detour Media Group, Inc., f/k/a Detour Magazine, Inc., f/k/a Ichi-Bon Investment Corporation ("we," "us," "our" or our "company"), was incorporated under the laws of the State of Colorado on May 18, 1990. On June 6, 1997, pursuant to the terms of an Agreement and Plan of Reorganization, we acquired all of the issued and outstanding securities of Detour, Inc., a California corporation, in exchange for 4,500,000 shares of our "restricted" common stock. As a result, we were the surviving entity.

We are engaged in the publishing of a monthly magazine entitled Detour, which includes advertisements and articles relating to fashion, contemporary music and entertainment and social issues. Management describes the magazine as an "urban, avant-garde" publication. We derive approximately 80% of our revenues from advertising, with the balance from circulation. We maintain offices in both Los Angeles and New York City.

Our magazine is published monthly, with the exception of the issues for January/February and July/August, 1997, for which one issue was published. The magazine has been, in general, approximately 192 pages in length, comprised of about 60 to 70 pages of advertising, with the balance in editorial pages. This reflects the limited, but growing, advertising base which typifies new publications.

This amendment is being filed in order to provide investors with revised financial statements for the six month period ended March 31, 1998 in accordance with a consent order entered between us and the Securities and Exchange Commission. See "Part II, Item 1, Legal Proceedings" below. For a current understanding of our operations and business plan, readers are advised to review our annual report on Form 10-KSB/A1 for the fiscal year ended December 31, 2000, as well as our Form 10-QSB/A1 for the six month period ended June 30, 2001.

The following information is intended to highlight developments in our operations, to present our results of operations, to identify key trends affecting our businesses and to identify other factors affecting our results of operations for the three month periods ended March 31, 1998 and 1997.

RESULTS OF OPERATIONS

Comparison of Results of Operations for the Three Month Periods Ended March 31, 1998 and 1997

During the three month period ended March 31, 1998, our revenues increased significantly, as it generated revenues of $1,540,594, compared to revenues of $1,080,976 for the similar period in 1997, an increase of $459,978 (42.5%). In the three month period ended March 31, 1998, costs of sales also rose to $825,570, compared to $468,198 for the similar period in 1997, an increase of $357,372. This was due primarily to the increase in print orders of our magazine (number of copies printed), caused by management's efforts to expand circulation, which resulted in increased printing and paper costs as a factor of such expansion.

Selling, general and administrative expenses were $1,050,135 for the three months ended March 31, 1998, compared to $635,877 for the similar period in 1997, an increase of $414,258 (65.1%). This increase was attributable to increased factoring fees of approximately $30,000, increased salaries attributable to our new management team and our incurring significant professional fees as a result of our becoming a reporting company.

Interest expense rose as a result of our need to borrow additional working capital from affiliates, from $36,518 in the three month period ended March 31, 1997, to $45,387 for the three month period ended March 31, 1998, an increase of $8,869 (24.2%).

See "Liquidity and Capital Resources" below. As a result, we generated a net loss of $(380,498) for the three month period ended March 31, 1998, compared to a net loss of $(59,617) for the three month period ended March 31, 1997. It is anticipated that we will continue to incur operating losses in the foreseeable future, until such time as we are able to put new magazine acquisitions in place. There can be no assurances that we will successfully consummate new acquisitions, or, if so accomplished, that the new magazines will allow us to generate profits from operations in the future.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1998, we had $38,061 in cash and cash equivalents. We also increased our accounts receivable to $318,382 from $281,889 during the three months beginning January 1, 1998, an increase of $36,493 (12.9%), which management attributes to subscription receivables.

We had outstanding notes payable to non-affiliates in the aggregate amount of $502,000, including the following:

(i) A note in the principal amount of $190,000, which is due upon demand and bears interest at the rate of 18%, payable quarterly. This note is personally guaranteed by Ed Stein, one of our officers, a director and our principal shareholder.

(ii) A note in the principal amount of $122,000, which bears interest at the rate of 8% per annum. All principal and interest on this note was due January 22, 1998, but the due date was extended by mutual agreement until June 30, 1998. This note is also personally guaranteed by Mr. Stein.

(iii) Notes with an outstanding balance of $60,000, which accrues interest at the prime rate, plus 2%. In May, 1998, we repaid $45,000 of this obligation. Principal and interest on this note is due in one remaining installment of $15,000, which was due on March 15, 1998. This payment was not made when due; however, we had a $30,000 credit with the note holder and management and the note holder are presently involved in negotiations relating to the balances due and applicable payment dates thereon.

(iv) Two new notes which arose as part of the acquisition consummated by us during the three month period ended March 31, 1998 of Milton Magazine, including one note with an outstanding principal balance of $105,000, which accrues interest at prime rate plus 2% and which is to be repaid over a two year period, with principal and interest payments escalating over the life of the note, beginning with monthly payments of $3,164 and escalating to $6,125 and a second note in the principal amount of $25,000, which accrues no interest and is payable in monthly payments of $5,000, which commenced in May 1998.

The remaining outstanding note payable to an unaffiliated party in the principal amount of $932,313 arose out of a loan originally due to an affiliated party. Relevant thereto, in 1995, Mr. Stein loaned us $932,313 which bears interest at the rate of 12% per annum and is due upon demand. The obligation is secured by all of our assets. The note holder agreed to subordinate this security position relevant to our accounts receivable factoring arrangement. This stockholder subsequently assigned this Note to JCM Capital Corp. ("JCM"). It is our intention to repay a portion of this obligation with some of the proceeds derived from our initial private equity offering described hereinbelow, which closed in May 1998. The balance is proposed to be repaid from subsequent fund raising activities which we anticipate undertaking in the near future. However, there can be no assurances that we will raise a sufficient amount of funds to enable us to repay this obligation, as well as to implement our business plan described in prior reports filed with the Securities and Exchange Commission.

Mr. Stein has also loaned us the principal sum of $609,976, which loan bears interest at the rate of 12% per annum, calculated on the average monthly outstanding balance and which is due upon demand. Applicable thereto, Mr. Stein has provided us with a letter advising that he will abstain from demanding any repayment on this obligation at least through December 31, 1998.

We factor our monthly domestic accounts receivable with Riviera Financial, Inc., Los Angeles, California ("Riviera"). The majority of factoring provided by Riviera is on a non-recourse basis. On average, we pay a fee to Riviera of approximately 4.5% per month. Historically, we have factored approximately $3 million per annum in accounts receivable with Riviera. Riviera's maximum fee for factoring our receivables is 9% per month, with a hold back of 11% on each invoice until receipt of funds. Therefore, Riviera is only factoring 89% of our total eligible domestic advertising receivables. In addition, Riviera also acts in the capacity of credit manager for the Magazine by performing credit checks, mailing invoices, making collection calls and posting receivables. It is anticipated that, provided we successfully raise additional capital in the near future, of which there can be no assurance, the factoring relationship with Riviera will be terminated, as management believes that it will no longer be necessary due to sufficient cash then available to us.

Management has undertaken a plan of expansion and in order to effectuate the same, has recognized our need for additional operating capital. In response thereto, in November 1997, we commenced a private offering of our common stock wherein we offered up to 4,700,000 shares of our common stock (post forward split) at a price of $.75 per share, for aggregate gross proceeds of up to $3,525,000. As of the date of this report, this offering has closed with our receiving gross proceeds of $913,000 from the sale of 1,217,333 common shares. In management's view, the funds

generated from this offering have not been sufficient to meet our needs for additional working capital in order to allow us to fully implement our expanded business plan. Numerous scenarios are presently being explored by management, including discussions with investment banking firms who have expressed an interest in working with us to raise additional equity capital. However, as of the date of this report, no definitive arrangements have been made between us and any third party wherein such third party has agreed to raise additional capital for us and, while management is optimistic that it will be successful in this regard, there are no assurances that any additional funds will be raised. Our failure to raise additional funds, either debt or equity, will have a significant negative impact on our ability to generate profitable operations.

TRENDS

Management believes that we will continue to operate our business at a loss for the foreseeable future, but is optimistic that we will begin generating profits from operations beginning in the year 2000, and possibly earlier if sufficient working capital discussed in "Liquidity and Capital Resources," above, is raised. This will occur as a result of increased circulation of Detour Magazine and new acquisitions of existing unaffiliated magazines, of which there can be no assurance. The new magazine acquisitions will allow the current management team to spread its cost over the new titles. The current back office structure can add two to three additional magazines without adding any additional personnel. However, there can be no assurances that we will become profitable within the time parameters described herein, or at all.

INFLATION

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material affect on the results of operations during the three month period ended March 31, 1998.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

By notice dated March 30, 2000, the staff of the Salt Lake City District Office of the Securities and Exchange Commission ("SEC" or "the Commission") notified us and our Chairman that it was recommending to the SEC that an enforcement action be filed against both us and our Chairman relating to accuracy of certain of our financial statements in 1997 and 1998. The recommended enforcement action was based on: (i) the improper presentation of certain quarterly financial information; and (ii) the failure to record in accordance with generally accepted accounting principles the proper compensation expense resulting from the issuance to

consultants in 1997 of options to purchase 4,400,000 shares of common stock. According to the notice from the Commission, the SEC anticipates alleging that we had violated Section 17(a) of the Securities Act of 1933, and Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5, Section 13(a) of the Exchange Act and various rules promulgated thereunder.

In 2000, we advised the staff that we wished to cooperate fully and reach an agreement on an appropriate remedy to resolve this matter. We had determined to restate our financial statements to address the concerns raised by the staff.

On November 22, 2000, the matter was resolved by the Commission issuing a cease-and-desist proceeding pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934. The Commission ordered us to amend our filings with the Commission to properly reflect our financial condition and operating results, and as required by Section 13(b)(2) of the Exchange Act, make and keep books, record and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets. This amendment is being filed as a result of the aforesaid order.

The Commission further ordered us to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles. We have advised the Commission of our intention to amend our filing with the Commission. No civil penalties were assessed against us relevant to the settlement of this matter.

We believed that the issue regarding improper presentation of quarterly financial information relates to our averaging of certain costs and expenses in certain quarterly periods in 1997 and 1998 instead of calculating these costs and expenses precisely. To comply with the staff's requirement, we would be required to determine the actual costs and expenses for the affected quarters. The second issue related to whether we recorded the proper amount of compensation expense in connection with the issuance of the options to the consultants. We recorded an expense of $21,991, based on the exercise price of the options of $.005 per share. Based upon our restated financial statements, we actually incurred consulting fees of $3,278,000 arising from revised valuations of stock options issued by us in 1997. This new valuation takes into account the market value of our common stock following issuance of the options ($1.50 per share) as opposed to the option exercise price per share ($0.01) and the term of the options granted (2 years). The SEC staff believes that the expense should be the fair market value of the options at the time the options were issued.

We have been named as a defendant in several other lawsuits in the normal course of our business. With the exception of one prospective matter, in the opinion of management after consulting with legal counsel, the liabilities, if any, resulting from these matters will not have a material effect on our financial statements.

ITEM 2. CHANGES IN SECURITIES

In November 1997, we commenced a private offering of our common stock wherein we offered up to 4,700,000 shares of our common stock (post forward split) at a price of $.75 per share, for aggregate gross proceeds of up to $3,525,000. As of the date of this report, this offering has closed with our receiving gross proceeds of $913,000 from the sale of 1,217,333 common shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES - NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

ITEM 5. OTHER INFORMATION - NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K -

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

DETOUR MEDIA GROUP, INC.
f/k/a Detour Magazine, Inc.
CONDENSED BALANCE SHEET

	(unaudited) For the Three Months Ended March 31 1998	(audited) For the Fiscal Year Ended December 31 1997
ASSETS:		
CURRENT ASSETS		
Cash	$ 38,061	$ 11,089
Accounts receivable	318,382	281,889
Prepaid expenses and other current assets	133,701	61,079
Total current assets	490,144	354,057
PROPERTY AND EQUIPMENT, Net	148,799	132,591
OTHER ASSETS		
Security deposits	15,700	13,750
Total other assets	15,700	13,750
TOTAL ASSETS	$ 654,643	$ 500,398
LIABILITIES:		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,105,349	$ 870,714
Deferred revenue	192,057	192,057
Notes payable	501,744	372,000
Accrued interest payable	0	19,216
Due to stockholder	979,442	932,313
Note payable stockholders	932,313	609,976
Interest payable, stockholders	22,738	224,615

Total Current Liabilities	3,733,643	3,220,891
EQUITY:		
Common stock	14,769	10,369
Additional paid-in capital	4,330,659	4,313,068
Accumulated deficit	(7,424,428)	(7,043,930)
TOTAL EQUITY	(3,079,000)	(2,720,493)
TOTAL LIABILITIES AND EQUITY	$ 654,643	$ 500,398

DETOUR MEDIA GROUP, INC.
f/k/a Detour Magazine, Inc.

UNAUDITED CONDENSED STATEMENT OF OPERATIONS

	For the Three Months Ended March 31,	
	1998	1997
SALES	$ 1,540,594	$ 1,080,976
COST OF SALES	825,570	468,198
GROSS PROFIT	715,024	612,778
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,004,479	619,858
OPERATING LOSS	(289,455)	(7,080)
Factoring fees	(45,656)	(16,019)
Interest expense	(45,387)	(36,518)
NET INCOME (LOSS)	$ (380,498)	$ (59,617)
Loss per share of common stock	$ (0.03)	$ (0.01)
Weighted averages		

shares outstanding	14,769,336	9,330,760

DETOUR MEDIA GROUP, INC.
f/k/a Detour Magazine, Inc.
UNAUDITED CONDENSED STATEMENT OF CASH FLOW

	For the Three Months Ended March 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES	
Net (loss)	$ (380,498)
Depreciation and amortization	9,700
Increase in accounts receivable	(36,493)
Increase in prepaid expenses and other current assets	(74,572)
Increase in accounts payable and accrued expenses	234,635
Decrease in accrued interest payable	(19,216)
Increase in interest payable, stockholder	(201,877)
TOTAL ADJUSTMENTS	(87,823)
NET CASH USED IN OPERATING ACTIVITIES	(468,321)
CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchase of fixed assets	(25,908)
NET CASH USED IN INVESTING ACTIVITIES	(25,908)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds from notes payable	129,744
Net proceeds from stockholder	369,466
Proceeds from issuance of stock	21,991
NET CASH PROVIDED BY FINANCING ACTIVITIES	521,201
NET DECREASE IN CASH	26,972
CASH - beginning	11,089

CASH - ending	$ 38,061

DETOUR MEDIA GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three Month Period Ended March 31, 1998

1. Unaudited Interim Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with the instructions for Form 10-QSB and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year.

2. Basis of Presentation

Business combination

On June 6, 1997, pursuant to the terms of an Agreement and Plan of Reorganization, Ichi-Bon Investment Corporation ("IBI") acquired all of the outstanding common stock of Detour, Inc. ("Old Detour") in exchange for 4,500,000 unregistered shares of IBI's common stock. As a result of the transaction, the former shareholders of Old Detour received shares representing an aggregate of 90% of IBI's outstanding common stock, resulting in a change in control of IBI. As a result of the merger, IBI was the surviving entity and Old Detour ceased to exist. Simultaneously therewith, IBI amended its articles of incorporation to reflect a change in IBI's name to "Detour Magazine, Inc." References to the "Company" or "Detour" refer to Detour Magazine, Inc. together with the predecessor company, Old Detour.

The acquisition of Old Detour has been accounted for as a reverse acquisition. Under the accounting rules for a reverse acquisition, Old Detour is considered the acquiring entity. As a result, historical financial information for periods prior to the date of the transaction are those of Old Detour. Under purchase method accounting, balances and results of operations of Old Detour will be included in the accompanying financial statements from the date of the transaction, June 6, 1997. The Company recorded the assets and liabilities (excluding intangibles) at their historical cost basis which was deemed to be approximate fair market value. The reverse acquisition is treated as a non-cash transaction except to the extent of cash acquired, since all consideration given was in the form of stock.

Earnings per share

Earnings per share have been computed based on the weighted average number of common shares outstanding. For the nine month period prior to the reverse acquisition discussed in the business combination section of Note 2 above, the number of common shares outstanding used in computing earnings per share is the number of common shares outstanding as a result of such reverse acquisition (5,000,000 shares).

3. History and Business Activity

Detour was originally incorporated as Ichi-Bon Investment Corporation on May 18, 1990, under the laws of the State of Colorado. The name was changed to Detour Magazine, Inc. concurrent with the business combination described in Note 2. Prior to such business combination, Detour had not engaged in any operations or generated any revenue.

Old Detour was a publisher of a nationally distributed magazine entitled "Detour" which is published monthly and contains articles and pictorial displays on fashion, music and social commentary.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities and Exchange Act of 1934, the Registrant has duly caused this amendment to its report to be signed on its behalf by the undersigned, thereunto duly authorized.

DETOUR MEDIA GROUP, INC.
(Registrant)

Dated: October 15, 2001

By: s/Edward T. Stein

Edward T. Stein, President